

**SHEPHERD PUBLIC SCHOOL DISTRICT**

**Shepherd, Michigan**

**Financial Statements  
With Supplemental Information  
*June 30, 2008***



Roslund, Prestage & Company, P.C.  
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Shepherd Public School District  
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June 30, 2008

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## Independent Auditor's Report

Shepherd Public School District  
Shepherd, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shepherd Public School District (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants  
October 10, 2008

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**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**



Shepherd Public Schools  
Management Discussion and Analysis  
For the Year Ended June 30, 2008

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Our discussion and analysis of the Shepherd Public School District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2008. Please read this discussion and analysis in conjunction with the District's financial statement beginning on page 1.

**I. Description of the Basic Financial Statements**

District-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities on pages 1 and 2 provide information concerning the operation of the District as a whole. This reporting model takes into consideration the cost of capital assets of the district, as well as, reflects the District's operations on the accrual basis of accounting similar to that used in industry. Most notable is the fact that capital assets are not recorded as an expense at the time of purchase. Instead, under the new model, capital assets are depreciated over their expected life. Accumulated depreciation is recorded as an offset to capital assets. This reporting model is intended to present a clearer picture of the cost of utilizing capital assets in the District's operations. This model generally has a long-term focus.

Fund Financial Statements

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance on pages 3 and 5 provide financial information for the individual governmental funds. The focus of this presentation is to present resources available at the beginning of the year, the receipt and use of resources during the year, and the balance of resources available at year-end to be used in future years. This model is referred to as modified accrual and is focused on available spendable resources. This model generally has a short-term focus.

Reconciliation

The statements on pages 4 and 6 reconcile the differences between the District-Wide Financial Statements and the Fund Financial Statements.

Trust and Agency Funds

The Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets present the financial activity of funds held for the benefit of other individuals and/or entities. These amounts are not reflected in the Government-Wide Financial Statements because these resources are not intended to be used to finance the operations of the District.

Shepherd Public Schools  
Management Discussion and Analysis  
For the Year Ended June 30, 2008

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**II. Condensed Government-Wide Financial Information**

The change in assets, liabilities, and net assets from the previous year for the government-wide financial statements were significant.

Current assets have increased significantly from the previous year as a result of issuing bonds with a par value of \$28,905,000 for the purpose of renovations/additions to existing facilities and refunding bonds with a par value of \$2,990,000. These bonds were sold at a net premium of \$606,303 and the related investment of those funds has resulted in accrued interest earnings of \$325,637 at year end.

The increase in capital assets net of depreciation indicates that capital assets are being replaced at a faster rate than they are depreciating. Capital assets purchased during the year totaled \$678,825 while current year depreciation was \$426,023. Capital assets with a book value of \$6,340 (net of depreciation) were sold during the year at a gain of \$1,504.

The increase in noncurrent liabilities was primarily the result of issuing new bonds for construction of \$28,905,000, refunding the 1998 Refunding bonds of \$2,990,000, and a bond premium of \$597,680 (net of amortization). Also affecting the balance of noncurrent liabilities is the reclassification of the current portion of the 2008 Bonds payable of \$370,000 to current liabilities (a decrease), reclassification of the current portion of Durant Bonds payable of \$14,957 to current liabilities (a decrease), and the increase in compensated absences of \$48,074 (an increase).

Total net assets for governmental activities increased by 7.0% for the period.

All information presented in Table 1 relates to governmental activities. The District does not have any business-type activities.

Table 1  
Comparative Summary of Assets, Liabilities, and Net Assets  
At June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
Current Assets	\$34,436,514	\$5,633,210	\$28,803,304
Noncurrent Assets	<u>8,306,468</u>	<u>7,647,281</u>	<u>659,187</u>
Total Assets	<u>\$42,742,982</u>	<u>\$13,280,491</u>	<u>\$29,462,491</u>
Current Liabilities	\$4,484,619	\$4,209,729	\$274,890
Noncurrent Liabilities	<u>32,809,821</u>	<u>3,979,024</u>	<u>28,830,797</u>
Total Liabilities	<u>\$37,294,440</u>	<u>\$8,188,753</u>	<u>\$29,105,687</u>

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Investment in Capital Assets (Net of Related Debt)	\$3,946,182	\$3,818,596	\$127,586
Restricted	1,089,243	261,640	827,603
Unrestricted	413,117	1,011,502	-598,385
Total Net Assets	<u>\$5,448,542</u>	<u>\$5,091,738</u>	<u>\$356,804</u>

Total revenues reported on the statement of activities varied significantly from the previous year. Operating Grants and Contributions decreased primarily as a result of a reduction in special education funding from the State of \$122,345. Other General Revenue increased as a result of interest earnings of \$445,001 on the investment of bond proceeds. Other changes in General Revenues include the normal increases in property taxes and state aid not restricted to specific purposes of \$41,548 and \$226,650 respectively.

Table 2  
Comparative Summary of Program, General, and Total Revenues  
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
Charges for Services	\$416,238	\$404,688	\$11,550
Operating Grants and Contributions	<u>2,609,917</u>	<u>2,789,569</u>	<u>-179,652</u>
Total Program Revenues	<u>\$3,026,155</u>	<u>\$3,194,257</u>	<u>\$-168,102</u>
Property Taxes	\$1,449,717	\$1,372,442	\$77,275
State Aid Not Restricted to Specific Purposes	11,343,973	11,117,323	226,650
Other General Revenues	<u>611,255</u>	<u>140,276</u>	<u>470,979</u>
Total General Revenues	<u>\$13,404,945</u>	<u>\$12,630,041</u>	<u>\$774,904</u>
Total Revenues	<u>\$16,431,100</u>	<u>\$15,824,298</u>	<u>\$606,802</u>

Total expenses varied significantly from the previous year. Support Services increased primarily because the cost of aid supervision for playground and other non-instructional purposes (\$174,809) was classified as Support Services rather than Instruction as in prior years. Other increases to Support Services include smaller items such as increased cost of fuel for buses (\$57,322). The Interest and Fees on Long-term Debt have increased as a result issuing additional debt.

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Table 3  
Comparative Summary of Program Expenses by Function and Total Expenses  
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
Instruction	\$8,649,766	\$8,575,431	\$74,335
Support Services	6,282,461	5,737,833	544,628
Community Services	54	926	-872
Other			
Interest and Fees on Long-term Debt	718,661	204,309	514,352
Amortization – Unallocated	-2668		-2668
Depreciation – Unallocated	426,023	429,632	-3,609
Total Expenses	<u>\$16,074,296</u>	<u>\$14,948,131</u>	<u>\$1,126,165</u>

**III. Analysis of the Overall Financial Position and Results of Operations for Governmental Activities**

**Governmental Activities**

The net assets and changes in net assets are presented in table 4 below. Since the District does not have any business-type activities, this change is entirely comprised of governmental type activities.

Table 4  
Comparative Summary of Net Assets and Changes in Net Assets  
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
Net Assets – Beginning	\$5,091,738	\$4,215,572	
Increase (Decrease) in Net Assets	<u>356,804</u>	<u>876,166</u>	-519,595
Net Assets – Ending	<u>\$5,448,542</u>	<u>\$5,091,738</u>	

The District operates under the philosophy that it should neither increase nor decrease fund balance from one year to the next based on the traditional model of available spendable resources (modified accrual). To increase fund balance is an indication that taxpayer money is not being fully utilized for the education of the children. To decrease fund equity is not sustainable for the long-term and would result in cuts to programs in the future. To operate at break-even allows the full utilization of the resources to finance education in a sustainable fashion.



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The Board has also set policy with regard to the ideal amount of unreserved/undesignated general fund balance. This policy states that the ideal amount of fund equity should be a fixed dollar amount that increases as the foundation grant increases. The formula yields an ideal balance of approximately 4% of annual expenditures. At year-end, the unreserved/undesignated general fund balance was 6.2% of annual expenditures compared to 5.4% in the preceding year.

The increase in Net Assets is a function of the difference between the new model and the old model. The reconciliation between these two methods is presented on page 6. The main difference between the two models is accounting for the issuance and payment of long-term debt. The issuance of the bonds (\$31,895,000) including the premium on the sale of the bonds (\$606,302) and the bond issuance costs (\$418,679) account for \$32,082,623 of the difference between the two methods of accounting. The payment of the 1998 Refunding bonds accounts for \$3,670,000 of the difference between the two methods. Other differences include the accrual of interest on long-term debt (\$541,998), capitalizing the purchase of fixed assets (\$674,287), and the depreciation of fixed assets (\$426,023).

#### **Statement of Activities**

The Statement of Activities on page 2 is significantly different from the Statement of Revenues, Expenditures, and Changes in Fund Balance. This statement is organized by program listing the expenses in the first column, charges for services in the second column, grants/contributions in the third column, and net expense/revenue in the fourth column. This manner of presentation illustrates the expenses each program generates as well as the corresponding revenues. The net expense/revenue indicates the portion of that program that must be financed with general revenues of the district or, in the case of food service, may not require any general revenues.

To help the user better understand this statement, the significant program revenues have been identified as follows:

Basic Instruction	Drivers education tuition, Tribal grants, At-Risk grant, Early Childhood grant, Title IIA grant.
Added Needs	State Special Education funding, Vocational Education funding, Title IA grant, Title IIA grant, Medicaid revenues, county special education tax levy from intermediate school district.
Pupil Services	State Special Education funding, Special Education tuition and county special education tax levy from intermediate school district.

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Instructional Staff	Tribal grants, Morey Foundation grant, State Special Education funding, Title IA, Title IID, Title VA grants, and county special education tax levy from intermediate school district.
General Administration	Title IA grants.
Operations and Maintenance	State revenue - Durant settlement.
Pupil Transportation	Special Education funding, Tribal grants, Vocational Education funding and county special education tax levy from intermediate school district.
Food Service	Hot lunch sales, State Hot Lunch funds, and Federal Hot Lunch funds.
Athletics	Gate receipts and tournament fees.

All other revenues are considered General Revenues and are listed at the bottom of the Statement of Activities.

#### **IV. Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year with the exception of the Food Service Fund and the Debt Service Fund.

The Food Service Fund incurred a loss as a result of higher than expected food costs. Food costs increased faster than expected as crop prices and fuel prices increased dramatically during the year.

The Debt Service Fund realized a significant increase in fund equity as a result of the sale of a new bond issue during the year. Since taxes could not be levied prior to the first bond payment due date, a portion of the bond proceeds were deposited into the Debt Service Fund to make that first payment. This deposit accounts for a majority of the increase in the fund equity.

A comparison of the change in fund balance to the revenues and other financing sources for each of the governmental funds is as follows:

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Management Discussion and Analysis  
For the Year Ended June 30, 2008

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	Revenues and Other Financing <u>Sources</u>	Net Change in Fund Balance <u>From Prior Year</u>	Percent Change in Fund Balance as a Percent of Revenues and Other Financing <u>Sources</u>
General	\$14,658,219	\$217,903	1.49%
Food Service	626,338	(41,356)	6.60%
Athletics	264,549	94	0.04%
Debt Service	4,708,582	827,603	17.58%

### **General Fund**

Approximately 81% of the General Fund is spent on salaries and benefits. Since this represents such a large portion of the budget, every attempt is made to settle bargaining agreements that will result in no change to this percentage. If a larger portion of the budget is spent on salaries and benefits, then the fund balance will most likely be reduced because significant reductions to the remainder of the budget are difficult to make.

The Board of Education has designated a portion of the fund balance for specific purposes itemized on page 22. The Board allows certain unspent budget items to be carried over to the following year. It is Management's belief that if people are allowed to carryover unspent portions of their budget, these people will spend this money more wisely than under the "use it or loose it" philosophy of some governmental units. The Board designates fund balance equal to the amount of funds carried over to the following year. Included also in these designations are monies the board has set aside to finance large maintenance projects started but not completed at year-end. The Board has also designated funds to be used for future maintenance projects that would be too large a burden on fund balance to complete without setting aside funds over a period of years.

### **Food Service Fund**

The Food Service Program for the District has not required any contribution from the General Fund in recent years. The prices for meals served are adjusted as needed to cover the expenses of these operations. The price per meal was increased for the 2008/2009 fiscal year by 5¢. This increase in the hot lunch price is not expected to fully offset recent operating losses for this program. Instead, the program will continue to use fund equity for another year to balance the budget after which the meal prices will need to be increased by 20¢ to 30¢ a meal. The Board feels that the fund equity is excessive in this fund and it should be spent down before the meal prices are substantially increased.

Shepherd Public Schools  
Management Discussion and Analysis  
For the Year Ended June 30, 2008

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**Athletic Fund**

The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects significant revenues in the form of gate receipts and tournament fees. The revenues and expenditures for this fund don't normally vary much from one year to the next with the exception of the number of tournaments hosted by the District. This fund is normally very close to break-even since the General Fund transfers only those funds necessary for the Athletic Fund to break-even.

**Debt Service Fund**

The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bonds issued to construct facilities throughout the District. The tax rate is set each year at a level to pay the current year principal and interest payments on the bond issue.

**V. Changes to Budget and Comparison to Actual Results**

The original budget is required to be adopted before the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2008, the original budget was adopted on June 19, 2007. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2008 are as follows:

**General Fund**

*Changes from Original Budget to Final Budget*

Non-Educational Entity or Political Subdivision – Received \$175,986 in grants from the Saginaw Chippewa Indian Tribe during the year. This is also adjusted for grants received in prior years that were carried over to the current fiscal year.

Basic Programs – Budgeted for the expenditure of a majority of the previously mentioned Tribal grant. Funds budgeted and unspent in the previous year of \$197,158 were carried over and added to the current year budget. The cost of aid supervision for playground and other non-instructional purposes (\$174,809) was classified as Support Services-Pupil rather than Instruction-Basic Programs as in prior years.

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Management Discussion and Analysis  
For the Year Ended June 30, 2008

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- Added Needs – The payments to other public schools for vocational education services was reclassified to Instruction-Added Needs.
- Pupil - The cost of aid supervision for playground and other non-instructional purposes \$174,809 was classified as Support Services-Pupil rather than Instruction-Basic Programs as in prior years.
- Business Services – The budget was amended to allow for the purchase of some copy machines for \$59,573.
- Pupil Transportation – Received \$79,211 from the Saginaw Chippewa Indian Tribe for the purchase of a new school bus. Additional monies were also budgeted for increased fuel costs \$50,000 and an additional bus run \$14,000.
- Central Services –Funds budgeted and unspent in the previous year of \$96,284 were carried over and added to the current year budget.
- Payments To Other Public Schools – The payments to other public schools for vocational education services was reclassified to Instruction-Added Needs.
- Facilities Acquisition – Funds budgeted and unspent in the previous year of \$183,425 were carried over and added to the current year budget.

*Variances between Final Budget and Actual Amounts*

- Non-Educational Entity or Political Subdivision - Revenues of \$320,661 from the previously mentioned Tribal grant were deferred because those monies were not spent by year end.
- Basic Programs – A large portion of Tribal grants were not spent by year-end. Unspent supply budgets of \$196,140 will also be carried over to the new fiscal year.
- Pupil Transportation – Tribal grants of \$75,211 were received in May 2008 for the purchase of a new school bus, however, those funds were not spent until after year end.
- Central Services –Amounts budgeted for the replacement of technology were not spent by year end and will be carried over to the new year in the amount of \$118,025.
- Facilities Acquisition – The District budgeted for some large maintenance projects that were not completed by year end or not committed to a particular project. Those amounts will be carried over to the new year in the amount of \$308,349.

Shepherd Public Schools  
Management Discussion and Analysis  
For the Year Ended June 30, 2008

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**Food Service Fund**

*Changes from Original Budget to Final Budget*

Food Service – The amount budgeted for the purchase of food was increased to reflect higher than expected food costs. Food costs increased faster than expected as crop prices and fuel prices increased dramatically during the year.

*Variances between Final Budget and Actual Amounts*

No significant variances from the final budget.

**Athletic Fund**

*Changes from Original Budget to Final Budget*

No significant variances from the original budget.

*Variances between Final Budget and Actual Amounts*

No significant variances from the Final Budget.

**VI. Capital Assets and Long-Term Debt Activity During the Year**

**Capital Assets**

A summary of the changes in the District's capital assets is presented on page 19. The significant additions and disposals are described as follows:

Buildings and Additions – New lockers were installed in the boys' High School locker room.

Machinery and Equipment – Purchased four new copiers, a new server, a new mower, radio equipment, and a wireless connection between two district locations. Disposed of a mower.

Vehicles – Purchased two school buses and a pickup with a plow. Disposed of a school bus, a pickup with a plow, and two vans.

**Long-Term Debt**

A summary of the changes in long-term debt is presented on page 21. Detailed notes for these long-term debts are on page 21. A few additional notes are as follows:

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Durant Bond Issue – This bond issue was refinanced on May 10, 2007. As a result of the refinancing, there were no payments due for the fiscal year ended June 30, 2008.

**VII. Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations.**

The preliminary student enrollment indicates a loss of 94 students from the previous year. This is a loss of \$515,778 in revenue for the current year. The District had only projected a loss of 24 students. The District's plan for offsetting this loss of revenue is a combination of reducing planned expenditures for items such as capital improvements, purchases of equipment, curriculum materials, and educational supplies. The balance of the shortfall will be taken from fund equity. This is only a short term solution. Staffing reductions will need to take place before the beginning of the 2009/2010 fiscal year to have a more permanent solution to the reduction in revenues.

The union contract with the teachers and bus drivers expired on 6/30/08. We are currently in the process of negotiating new contracts with these bargaining units.

The voters of the District have approved a bond issue in the amount of \$29,125,000 for additions and renovations to the buildings of the district, as well as, the construction of a new athletic complex for football and track. At the time of the sale of the bonds, interest rates were lower than anticipated and the bonds sold at a substantial premium. Therefore, bonds with a par value of \$28,905,000 were sold rather than the \$29,125,000 approved by the voters. Since interest rates were low, the existing bonds of the District were refunded resulting in the issuance of additional bonds with a par value of \$2,990,000. The savings from refinancing the existing bonds is \$251,036 (net present value of \$164,367). The payment principal and interest on these bonds doesn't have an affect on the normal operations of the District because the payment of the bonds comes from a separate property tax levy earmarked for debt service.

**DISTRICT-WIDE  
FINANCIAL STATEMENTS**





Shepherd Public School District  
Statement of Net Assets  
June 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Current assets		
Cash and investments	\$ 31,659,348	\$ 3,229,088
Accounts receivable, net	35,893	50,278
Accrued interest	325,637	-
Due from other governmental units	2,318,727	2,183,653
Inventory	52,125	47,404
Prepaid expenses	44,784	122,786
Total current assets	<u>34,436,514</u>	<u>5,633,209</u>
Noncurrent assets		
Deferred charges		
Bond issuance costs less accumulated amortization	412,725	-
Capital assets less accumulated depreciation	<u>7,893,743</u>	<u>7,647,281</u>
Total noncurrent assets	<u>8,306,468</u>	<u>7,647,281</u>
Total assets	<u>42,742,982</u>	<u>13,280,490</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	255,144	187,444
Accrued expenses	192,926	84,627
Accrued interest	656,870	126,414
Accrued wages	791,653	742,666
Deferred revenue	353,068	523,579
State aid loan payable	1,850,000	2,200,000
Current portion of long-term obligations	<u>384,957</u>	<u>345,000</u>
Total current liabilities	<u>4,484,619</u>	<u>4,209,729</u>
Noncurrent liabilities		
Long-term portion of bonds payable	31,668,728	3,483,685
Premium on bonds less accumulated amortization	597,680	-
Compensated absences	<u>543,413</u>	<u>495,339</u>
Total noncurrent liabilities	<u>32,809,821</u>	<u>3,979,024</u>
Total liabilities	<u>37,294,440</u>	<u>8,188,753</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,946,182	3,818,596
Restricted for:		
Debt service	1,089,243	261,640
Unrestricted	<u>413,117</u>	<u>1,011,502</u>
Total net assets	<u>\$ 5,448,542</u>	<u>\$ 5,091,738</u>

Shepherd Public School District  
Statement of Activities  
For the Year Ended June 30, 2008, with Comparative Data

Functions / Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes Net Assets	
		Charges for Services	Operating Grants and Contributions	2008	2007
<b>Governmental activities:</b>					
Instruction	\$ 8,896,633	\$ 87,504	\$ 1,757,549	\$ (7,051,580)	\$ (6,639,312)
Support services	6,035,594	328,734	827,132	(4,879,728)	(4,480,296)
Community services	54	-	-	(54)	(326)
Other	-	-	25,236	25,236	-
Interest and fees	718,660	-	-	(718,660)	(204,309)
Amortization - unallocated	(2,668)	-	-	2,668	-
Depreciation - unallocated	426,023	-	-	(426,023)	(429,632)
Total governmental activities	<u>\$ 16,074,296</u>	<u>\$ 416,238</u>	<u>\$ 2,609,917</u>	<u>(13,048,141)</u>	<u>(11,753,875)</u>
<b>General revenues:</b>					
Property taxes				1,449,717	1,372,442
State aid not restricted to specific purposes				11,343,973	11,117,323
Unrestricted interest and investment earnings				550,949	100,373
Gain (loss) on disposal of capital assets				1,504	7,256
Miscellaneous				58,802	32,647
Total general revenues				<u>13,404,945</u>	<u>12,630,041</u>
<b>Change in net assets</b>				356,804	876,166
<b>Net assets - beginning</b>				<u>5,091,738</u>	<u>4,215,572</u>
<b>Net assets - ending</b>				<u>\$ 5,448,542</u>	<u>\$ 5,091,738</u>

See accompanying notes to financial statements.

## **FUND FINANCIAL STATEMENTS**



Shepherd Public School District  
Balance Sheet - Governmental Funds  
June 30, 2008, with Comparative Data

	Major Funds					Total Governmental Funds	
	General	Food Service	Athletics	Capital Projects	Debt Service	2008	2007
<b>Assets</b>							
Cash and investments	\$ 2,661,500	\$ 88,696	\$ 39,422	\$ 27,780,487	\$ 1,089,243	\$ 31,659,348	\$ 3,229,088
Accounts receivable, net	35,836	57	-	-	-	35,893	50,278
Accrued interest	-	-	-	325,637	-	325,637	-
Due from other funds	35,200	-	-	-	-	35,200	67,661
Due from other governmental units	2,313,940	4,787	-	-	-	2,318,727	2,183,653
Inventory	40,560	11,565	-	-	-	52,125	47,404
Prepays	41,385	2,732	667	-	-	44,784	122,787
Total assets	<u>\$ 5,128,421</u>	<u>\$ 107,836</u>	<u>\$ 40,089</u>	<u>\$ 28,106,124</u>	<u>\$ 1,089,243</u>	<u>\$ 34,471,714</u>	<u>\$ 5,700,871</u>
<b>Liabilities</b>							
Accounts payable	\$ 251,760	\$ 2,551	\$ 833	\$ -	\$ -	\$ 255,144	\$ 187,444
Accrued expenses	191,531	1,396	-	-	-	192,926	84,627
Accrued interest	58,624	-	-	-	-	58,624	70,165
Accrued wages	785,925	5,728	-	-	-	791,653	742,666
Due to other funds	-	200	35,000	-	-	35,200	67,661
Deferred revenue	346,576	6,493	-	-	-	353,068	523,579
State aid loan payable	1,850,000	-	-	-	-	1,850,000	2,200,000
Total liabilities	<u>3,484,416</u>	<u>16,367</u>	<u>35,833</u>	<u>-</u>	<u>-</u>	<u>3,536,616</u>	<u>3,876,141</u>
<b>Fund balance</b>							
Reserved for:							
Debt service	-	-	-	-	1,089,243	1,089,243	261,640
Inventory	40,560	11,565	-	-	-	52,125	48,376
Prepays	41,385	2,732	667	-	-	44,784	121,815
Capital projects	-	-	-	28,106,124	-	28,106,124	-
Unreserved, designated for:							
Maintenance and capital outlay	665,250	-	-	-	-	665,250	526,075
Unreserved, undesignated reported in:							
General fund	896,810	-	-	-	-	896,810	751,884
Food service fund	-	77,172	-	-	-	77,172	111,749
Athletics fund	-	-	3,589	-	-	3,589	3,191
Total fund balances	<u>1,644,005</u>	<u>91,469</u>	<u>4,256</u>	<u>28,106,124</u>	<u>1,089,243</u>	<u>30,935,097</u>	<u>1,824,730</u>
Total liabilities and fund balances	<u>\$ 5,128,421</u>	<u>\$ 107,836</u>	<u>\$ 40,089</u>	<u>\$ 28,106,124</u>	<u>\$ 1,089,243</u>	<u>\$ 34,471,714</u>	<u>\$ 5,700,871</u>

See accompanying notes to financial statements.

Shepherd Public School District  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
To the Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended June 30, 2008

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Total fund balance - governmental funds \$ 30,935,097

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Cost of capital assets	\$ 14,250,724	
Deduct: Accumulated depreciation	<u>(6,356,981)</u>	
		7,893,743

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: Bonds payable	(31,895,000)	
Deduct: Durant bond issue	(158,685)	
Deduct: Compensated absences payable	(543,413)	
Deduct: Accrued interest on long-term liabilities	<u>(598,246)</u>	
		(33,195,344)

Other amounts reported in the statement of activities that do not require current financial resources consist of:

Add: Bond issuance costs (net of amortization)	412,725	
Deduct: Premium on bonds (net of amortization)	<u>(597,680)</u>	
		<u>(184,955)</u>

Total net assets - governmental activities	<u><u>\$ 5,448,542</u></u>
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Shepherd Public School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2008, with Comparative Data

	Major Funds					Total Governmental Funds	
	General	Food Service	Athletics	Capital Projects	Debt Service	2008	2007
<b>Revenues</b>							
Local sources	\$ 998,379	\$ 273,071	\$ 56,818	\$ 445,001	\$ 646,526	\$ 2,419,795	\$ 1,990,112
Non-educational entity or political subdivision	332,559	-	-	-	-	332,559	322,535
State sources	12,194,831	47,487	-	-	-	12,242,317	12,125,515
Federal sources	404,430	305,781	-	-	-	710,210	740,247
Other sources	728,021	-	-	-	-	728,021	645,887
Total revenues	14,658,219	626,338	56,818	445,001	646,526	16,432,902	15,824,296
<b>Expenditures</b>							
Instruction							
Basic programs	6,776,944	-	-	-	-	6,776,944	6,774,884
Added needs	1,823,478	-	-	-	-	1,823,478	1,779,957
Total instruction	8,600,422	-	-	-	-	8,600,422	8,554,840
Support services							
Pupil	706,971	-	-	-	-	706,971	522,021
Instructional staff	264,483	-	-	-	-	264,483	257,666
General administration	256,054	-	-	-	-	256,054	249,510
School administration	1,119,605	-	-	-	-	1,119,605	1,071,307
Business	449,301	-	-	-	-	449,301	360,916
Operation and maintenance	1,411,126	-	-	-	-	1,411,126	1,267,168
Pupil transportation	1,064,622	-	-	-	-	1,064,622	1,019,762
Central	322,509	922	-	-	-	323,432	327,840
Food service	-	666,772	-	-	-	666,772	612,262
Athletics	-	-	264,456	-	-	264,456	263,104
Total support services	5,594,672	667,694	264,456	-	-	6,526,822	5,951,555
Community services	54	-	-	-	-	54	926
Facilities acquisition and renovations	33,776	-	-	-	-	33,776	173,875
Capital projects	-	-	-	397,421	-	397,421	-
Debt service							
Principal	-	-	-	-	3,670,000	3,670,000	315,000
Interest	-	-	-	-	172,683	172,683	201,482
Debt issuance cost	-	-	-	380,702	37,976	418,679	-
Fees and other	3,661	-	-	-	320	3,981	-
Total expenditures	14,232,585	667,694	264,456	778,123	3,880,978	19,823,836	15,197,679
<b>Revenues over (under) expenditures</b>	425,634	(41,356)	(207,637)	(333,122)	(3,234,453)	(3,390,934)	626,617
<b>Other financing sources (uses)</b>							
Proceeds from bonds	-	-	-	27,957,094	3,937,905	31,894,999	-
Premium on bonds	-	-	-	482,152	124,151	606,303	-
Operating transfers in	-	-	207,731	-	-	207,731	199,756
Operating transfers out	(207,731)	-	-	-	-	(207,731)	(199,756)
<b>Revenues and other sources over (under) expenditures and other uses</b>	217,903	(41,356)	94	28,106,124	827,603	29,110,368	626,617
<b>Fund balances - beginning</b>	1,426,102	132,825	4,163	-	261,640	1,824,730	1,198,112
<b>Fund balances - ending</b>	\$ 1,644,005	\$ 91,469	\$ 4,256	\$ 28,106,124	\$ 1,089,243	\$ 30,935,097	\$ 1,824,730

See accompanying notes to financial statements.

Shepherd Public School District  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
In Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2008

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Net change in fund balances - total governmental funds	\$ 29,110,368
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: Capital outlay	674,287
Deduct: Depreciation expense	(426,023)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: Increase in accrual for compensated absences	(48,074)
Deduct: Increase in interest on long term debt	(541,998)
Deduct: Loss on disposal of capital assets	(1,801)

Procurement of and payment of principal on long-term debt is recongnized as an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Deduct: Proceeds from bonds	(31,895,000)
Deduct: Proceeds from premium	(606,302)
Add: Payment on bond principal	3,670,000

Other amounts reported in the statement of activities that do not require current financial resources

Add: Amortization of premium	8,622
Add: Bond issuance cost	418,679
Deduct: Amortization of bond issuance cost	(5,954)

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Net change in net assets - governmental activities	<u><u>\$ 356,804</u></u>
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Shepherd Public School District  
Statement of Fiduciary Net Assets  
June 30, 2008, with Comparative Data

			Totals	
	Trust Fund	Agency Fund	2008	2007
<b>Assets</b>				
Cash and investments	\$ 13,771	\$ 90,906	\$ 104,677	\$ 145,749
Total assets	<u>\$ 13,771</u>	<u>\$ 90,906</u>	<u>\$ 104,677</u>	<u>\$ 145,749</u>
<b>Liabilities</b>				
Due to student groups	\$ -	\$ 90,906	\$ 90,906	\$ 119,676
<b>Net assets</b>				
Restricted for endowments	12,665	-	12,665	19,926
Unrestricted	<u>1,106</u>	<u>-</u>	<u>1,106</u>	<u>6,147</u>
Total net assets	<u>13,771</u>	<u>-</u>	<u>13,771</u>	<u>26,073</u>
Total liabilities and net assets	<u>\$ 13,771</u>	<u>\$ 90,906</u>	<u>\$ 104,677</u>	<u>\$ 145,749</u>



Shepherd Public School District  
Statement of Changes in Fiduciary Net Assets  
For the Year Ended June 30, 2008 and 2007

	Trust Fund	
	2008	2007
<b>Additions</b>		
Interest	\$ 1,257	\$ 1,082
Contributions	414	841
Total additions	1,671	1,923
<b>Deductions</b>		
Scholarship, awards, & periodicals	949	1,251
Transfer to community foundation	13,023	-
Total deductions	13,972	1,251
<b>Change in net assets</b>	(12,301)	672
<b>Net assets - beginning</b>	26,073	25,401
<b>Net assets - ending</b>	\$ 13,771	\$ 26,073

## NOTES TO THE FINANCIAL STATEMENTS



## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Shepherd Public School District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District.

### **Reporting Entity**

The District is governed by a seven member Board of Education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

### **District-Wide and Fund Financial Statements**

The District-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including taxes and intergovernmental payments, not properly included among program revenues are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

## **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide Financial Statements – The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental funds:

- The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The debt service fund is used to record tax, interest, other revenue for payment, principal and other expenditures on the 1998 bond issue.
- The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The school service funds maintained by the District are the athletic fund and food service fund.

Additionally, the District reports the following fund types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the District-wide statements. Agency funds are custodial in nature (i.e. assets equal liabilities) and do not involve measurement of results of operations.

The District presently maintains a student activity fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

The District also maintains a non-expendable trust fund to account for assets of which the principal may not be spent. These funds have been accumulated to pay scholarships and awards to students.

## **Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

### **Budgetary Data**

Budgets are adopted by the District for the general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

State statute authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

### **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan.

### **Property Tax Revenue**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and interest and penalties may be assessed by the collecting entity.

The taxable value for the District amounted to \$194,749,776, which includes \$46,715,030 attributable to non-homesteads. The District levied 18.00 mills for school general operations on the non-homestead taxable value, which totaled \$840,871. The District also levied an additional 3.10 mills on all property in the District for the purpose of debt service, which totaled \$603,724.

### State Aid Revenue

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

### Inventory

Inventories are valued at cost, on a first in, first out (FIFO) basis. Fund balance is reserved for the amount of inventories on hand as of June 30<sup>th</sup>.

USDA donated commodities are recorded as a deferred revenue and inventory when received based on their fair market value as determined by the U.S. Department of Agriculture. Revenues and expenditures are then recognized when the commodities are used. Ending inventory for USDA donated commodities was immaterial and, therefore, was not recorded.

### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the District-wide financial statements. Capital assets are defined by the District as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The District does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the District-wide financial statements.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Land	Not Depreciated
Buildings & Additions	10 - 50
Machinery & Equipment	5 - 20
Vehicles	10
Construction In Progress	Not Depreciated

### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **Compensated Absences**

The District's policy does not allow employees to accumulate vacation days and carry the accumulation forward to future years. For custodial and maintenance workers, however, vacation accruals are based on their anniversary date resulting in a liability at year end. Vacation accruals for other employees are recorded on the fiscal year basis, resulting in no liability balance at year end. Accrued vacation pay is paid to the employee upon termination of employment. The vacation pay liability as of June 30, 2008 is \$12,398 and is reflected in the District-wide financial statements.

Teachers who have served the District at least eight years are eligible to receive a one-time severance payment in the amount of \$3,000 provided they qualify to retire under the MPSERS retirement plan. The amount of potential liability for these benefits at June 30, 2008 is \$249,000 and is reflected in the District-wide financial statements.

Sick days can be accumulated up to one hundred twenty-five (125) days for teachers and one hundred ten (110) days for other employees. All teachers with a minimum of ten years of service, upon retirement, are paid sick leave at a rate of \$45 per day up to a maximum of 60 days. All teachers with a minimum of twenty years of service, upon retirement, are paid sick leave at a rate of \$50 per day up to a maximum of 60 days. Employees that are members of the International Union of Operating Engineers, Local #547, 547A, 547B, and 547C, AFL-CIO with ten years of service, upon retirement, will be paid in full for all unused accumulated sick leave up to a maximum of 55 days and one half of their normal day's pay for all days in excess of 55 days. The sick leave liability as of June 30, 2008 is \$282,015 and is reflected in the District-wide financial statements.

### **Deferred Revenue**

Deferred revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and District-wide financial statements, and revenue is recognized.

### **Long-Term Obligations**

In the District-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net assets.

### **Net Assets and Fund Balances**

Restricted net assets shown in the District-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental fund financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

#### **Fund Balances - Reserves and Designations**

Fund balances in the governmental fund financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental fund financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

#### **Net Assets – Restrictions**

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

### **Unemployment Compensation**

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits charged against the District for the year. No provision has been made for possible future claims.



## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Excess Of Expenditures Over Appropriations**

Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- Management is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008.

During the current year the District incurred expenditures in excess of the amounts budgeted as indicated in the budget comparison schedules as unfavorable variances.

### NOTE 3. DEPOSITS AND INVESTMENTS

At June 30, 2008, the carrying amount of the District's cash, deposits and investments was as follows:

<b>Cash, Deposits, And Investments</b>	<b>Carrying Amount</b>
Petty Cash	\$ 1,000
Checking, Savings, & Money Market Accounts	4,853,446
State Investment Pool – MILAF	12,630
Investments	26,792,272
<b>Total</b>	<b>\$ 31,659,348</b>

#### Deposits with Financial Institutions

At year-end, the carrying amount of the District's deposits was \$4,853,446 and the bank balance was \$4,964,440. Of the bank balance, \$200,000 was covered by federal depository insurance and \$4,764,440 was uninsured and uncollateralized. Deposits that exceed FDIC insurance coverage limits are held at local banks.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

The District voluntarily invests certain excess funds in external pooled investment funds which includes money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school Districts. MILAF is not regulated nor is it registered with the SEC. As of June 30, 2008, MILAF reports the fair value of the District's investments is the same as the value of the pool shares.

#### Investments

As of June 30, 2008, the District had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (years)</b>	<b>Rating</b>	<b>%</b>
MILAF External Investment pool-MICMC	\$ 12,617	0.0027	AAAm	0.05
MILAF External Investment pool-MIMAX	13	0.0027	AAAm	0.00
Federal Home Loan Bank	530,663	0.1260	Aaa	2.00
FHLB Discount NT	329,703	0.0438	Aaa	1.25
Freddie Mac	8,446,494	1.2723	Aaa	31.89
Fannie Mae	17,162,950	1.5810	Aaa	64.81
Total fair value	\$ 26,482,440			
Portfolio weighted average maturity		1.4335		
1 day maturity equals 0.0027, one year equals 1.00				

MILAF investments are rated by Standard and Poor's.

All other investments are rated by Moody's Investors Service.

Shepherd Public School District  
Notes to the Financial Statements  
June 30, 2008

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**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. See above for amount of deposits held by the District that are exposed to custodial credit risk because it is uninsured and uncollateralized.

**Custodial credit risk – investments.** For an investment, it is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

#### **NOTE 4. INTERFUND RECEIVABLES AND PAYABLES**

The amounts of interfund receivable and payable shown on the fund financial statements as of June 30, 2008 are as follows:

<b>Fund</b>	<b>Due From</b>	<b>Due To</b>
General	\$ 35,200	\$ -
Food Service	-	200
Athletics	-	35,000
Total	\$ 35,200	\$ 35,200

Shepherd Public School District  
Notes to the Financial Statements  
June 30, 2008

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**NOTE 5. DUE FROM OTHER GOVERNMENTAL UNITS**

As of June 30, 2008 due from other governmental units is comprised of the following amounts:

Description	Amount
<b>General Fund:</b>	
State of Michigan – Title I	\$ 83,754
State of Michigan – Title II	5,714
State of Michigan – Title V	355
State of Michigan – State Aid	2,205,991
Mt. Pleasant Public Schools – Voc Ed	18,126
<b>Hot Lunch Fund:</b>	
State of Michigan – State Aid	4,787
Totals	\$ 2,318,727

**NOTE 6. PREPAIDS**

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid	Amount
Prefunded Dental and Vision Claims	\$ 5,825
Prepaid MEBS Premium	37,272
Prepaid Maintenance Agreement	1,687
Totals	\$ 44,784

Shepherd Public School District  
Notes to the Financial Statements  
June 30, 2008

**NOTE 7. CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

<b>Capital Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land & Improvements	\$ 1,012,704	\$ 5,800	\$ -	\$ 1,018,504
Buildings & Additions	10,095,934	23,475	-	10,119,409
Machinery & Equipment	843,090	74,615	(18,585)	899,120
Vehicles	1,730,680	173,013	(91,924)	1,811,769
Construction in Process	-	401,922	-	401,922
Total Capital Assets	13,682,410	678,825	(110,509)	14,250,724
<b>Accumulated Depreciation</b>				
Land & Improvements	(418,938)	(38,516)	-	(457,454)
Buildings & Additions	(4,049,697)	(190,754)	-	(4,240,451)
Equipment	(580,926)	(40,658)	18,585	(602,999)
Vehicles	(985,568)	(156,095)	85,586	(1,056,077)
Total Accumulated Depreciation	(6,035,129)	(426,023)	104,171	(6,356,981)
<b>Net Capital Assets</b>	<b>\$ 7,647,281</b>	<b>\$ 252,802</b>	<b>\$ (6,340)</b>	<b>\$ 7,893,743</b>

Depreciation for the year ended June 30, 2008 totaled \$426,023. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 8. ACCRUED EXPENSES**

Accrued expenses as of year-end, as shown below, include amounts due for retirement and FICA on salaries payable.

<b>Accrued Expenses</b>	<b>Amount</b>
Retirement (net)	\$ 132,366
FICA	60,560
Totals	\$ 192,926

**NOTE 9. ACCRUED INTEREST**

Accrued interest represents interest accrued on outstanding debt from the date of the last payment to the end of the fiscal year as follows:

Description	Amount
State Aid note	\$ 58,624
2008 Refunding Bonds	566,267
Durant Bonds	31,979
Total	\$ 656,870

**NOTE 10. ACCRUED WAGES**

Accrued wages represent the remaining balance on teacher contracts to be paid during the summer and other salaries and wages earned as of June 30<sup>th</sup>.

**NOTE 11. DEFERRED REVENUE**

Deferred revenue represents revenues received in advance of the amount expended as follows:

Revenue / Program	Amount
<b>General Fund</b>	
Tribal Grant	\$ 320,661
Golden Apple	2,678
Other Grants	23,236
<b>Food Service Fund</b>	
Prepaid Lunches	6,493
Total	\$ 353,068

**NOTE 12. SHORT-TERM NOTE PAYABLE**

On August 20, 2007 the District borrowed \$1,850,000 from the Municipal Bond Authority in the form of a State Aid Anticipation Note for the purpose of providing funds for school operations. The interest rate is stated at 3.68% and the maturity date is August 20, 2008. This loan is shown as a current liability in the General Fund.

On August 20, 2008 (after the end of the current fiscal year) the District again borrowed \$1,850,000 from the Municipal Bond Authority in the form of a State Aid Anticipation Note for the purpose of providing funds for school operations. The interest rate is stated at 1.70% and the maturity date is August 20, 2009. This loan was acquired after the end of the fiscal year and, therefore, is not shown as a current liability in the General Fund.

## NOTE 13. LONG-TERM DEBT

### 2008 School Building and Site Refunding Bonds

During 2008 the District issued \$31,895,000 of general obligation bonds. Bonds in the amount of \$28,905,000 will be used for the purpose of erecting, furnishing, and equipping additions to and remodeling, refurbishing and re-equipping school buildings; acquiring and installing educational technology improvements; and developing and improving playgrounds, athletic fields and facilities and sites.

The remaining \$2,990,000, together with other available funds of the District, were used to pay the remaining principal of and interest on the 1998 Refunding Bonds, dated April 15, 1998 and to pay the remaining portion of the cost of issuing the bonds.

As a result of the advance refunding, the District reduced its total debt service requirements by \$251,036, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$164,367.

See the schedule of long-term debt in the back of this report.

### Durant Bonds

As a result of the Durant Settlement, the District is expected to receive approximately \$537,496. One-half of the settlement (\$268,750) will be paid to the District in ten equal payments which began in November 1998. These payments are recorded as revenue in the General fund when received.

The District elected to receive the balance of the settlement by participating in the bonding program. Consequently, the District borrowed \$268,746 from the School Loan Bond Fund and will make the annual principal and interest payments from the annual appropriation from the State of Michigan. The bonds are the obligation of the District and are recorded in the District-wide financial statements. The State of Michigan is the only revenue source for making the annual debt service payments on the bonds. However, if the legislature fails to appropriate the funds, the District is under no obligation for payment.

Restrictions on the use of these funds is stated in the Revised School Code Part 17, Sections 1351 and include the following: school buses, electronic instructional material and software, textbooks, technology, infrastructure or infrastructure improvement, school security, training for technology, or to reduce or eliminate certain voter-approved debt.

For the terms of the bonds, see the bond payment schedule included in this report.

### Summary of Long-term Debt Transactions

The changes in long-term debt during the current fiscal year are as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance	Less: Current Portion	Total due after one year
<b>Compensated abs</b>	\$ 495,339	\$ 48,074	\$ -	\$ 543,413	\$ -	\$543,413
<b>1998 Bonds</b>	3,670,000	-	(3,670,000)	-	-	-
<b>2008 Bonds</b>	-	31,895,000	-	31,895,000	370,000	31,525,000
<b>Durant bonds</b>	158,685	-	-	158,685	14,957	143,728
<b>Total</b>	\$ 4,324,024	\$ 31,943,074	\$ (3,670,000)	\$ 32,597,098	\$ 384,957	\$ 32,212,141

Shepherd Public School District  
Notes to the Financial Statements  
June 30, 2008

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2008, including interest of \$24,004,486, are as follows:

<b>For The Fiscal year Ending June 30,</b>	<b>Amount</b>	<b>For The Fiscal year Ending June 30,</b>	<b>Amount</b>
2009	\$ 2,122,581	2024	\$ 1,963,875
2010	2,032,197	2025	1,930,125
2011	2,155,147	2026	1,877,250
2012	2,243,021	2027	1,849,375
2013	2,404,798	2028	1,822,313
2014	2,293,875	2029	1,794,188
2015	2,292,625	2030	1,735,281
2016	2,288,875	2031	1,676,375
2017	2,143,875	2032	1,621,375
2018	2,092,625	2033	1,556,094
2019	2,041,375	2034	1,500,313
2020	2,025,375	2035	1,444,531
2021	2,008,375	2036	1,413,750
2022	1,990,375	2037	1,356,875
2023	1,996,375		

**NOTE 14. FUND BALANCE RESERVES AND DESIGNATIONS**

Fund balance for the General Fund and Food Service Fund is reserved for inventory and prepaid expenses. Fund balance in the Debt Service Fund is reserved for debt service. Fund balance in the Trust Fund is reserved for endowments.

Fund balance in the General Fund is designated for the following items at June 30, 2008:

<b>Description</b>	<b>Amount</b>
Instructional Supplies, Text Books, and Capital Outlay	\$ 87,451
Curriculum	108,689
Media Center Supplies, Books, Periodicals, and Capital Outlay	5,505
Technology	118,025
Maintenance Projects	308,349
Maintenance Equipment and Pickup	14,011
Transportation Equipment and Van	23,220
<b>Total Designated Fund Balance</b>	<b>\$ 665,250</b>



## **NOTE 15. EMPLOYEE RETIREMENT SYSTEM**

### Plan Description

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental, and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS.

A copy of this report can be requested by calling (517) 322-6000 or by writing to:

Michigan Public School Employees' Retirement System  
P.O. Box 30171  
Lansing, MI 48909-7671

### Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74% of payroll. The contribution requirements of plan members and the District are established, and may be amended by, the MPERS Board of Trustees. This District's contributions to MPERS for the years ended June 30, 2008, 2007, and 2006 were \$1,407,761, \$1,379,611, and \$1,485,913, respectively, which is equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits; it is the responsibility of the State of Michigan.

### Other Post-Employment Benefits

Under the MPERS' Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these overages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

**NOTE 16. RISK MANAGEMENT**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in the SET/SEG risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The District has purchased commercial insurance for medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

**NOTE 17. TRANSFERS**

The general fund transferred \$207,731 to the athletics fund to cover operating expenses during the 2008 fiscal year.

**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULES**



Shepherd Public School District  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 963,480	\$ 994,599	\$ 998,379	\$ 3,780
Non-educational entity or political subdivision	391,771	653,220	332,559	(320,661)
State sources	12,064,700	12,197,516	12,194,831	(2,685)
Federal sources	369,830	425,393	404,430	(20,963)
Other sources	659,180	647,907	728,021	80,114
Total revenues	<u>14,448,961</u>	<u>14,918,635</u>	<u>14,658,219</u>	<u>(260,416)</u>
<b>Expenditures</b>				
Instruction				
Basic programs	7,288,501	7,209,451	6,776,944	432,507
Added needs	<u>1,427,210</u>	<u>1,879,801</u>	<u>1,823,478</u>	<u>56,323</u>
Total instruction	<u>8,715,711</u>	<u>9,089,252</u>	<u>8,600,422</u>	<u>488,831</u>
Support services				
Pupil	530,520	716,232	706,971	9,261
Instructional staff	277,850	317,728	264,483	53,245
General administration	268,216	280,136	256,054	24,082
School administration	1,109,990	1,125,057	1,119,605	5,452
Business	386,670	457,008	449,301	7,707
Operation and maintenance	1,430,680	1,420,635	1,411,126	9,509
Pupil transportation	1,062,650	1,202,960	1,064,622	138,338
Central	337,530	451,329	322,509	128,820
Total support services	<u>5,404,106</u>	<u>5,971,085</u>	<u>5,594,672</u>	<u>376,413</u>
Community services	2,850	350	54	296
Payments to other public schools	209,750	-	-	-
Facilities acquisition and renovation	162,800	346,325	33,776	312,549
Debt service	<u>15,100</u>	<u>3,661</u>	<u>3,661</u>	<u>-</u>
Total expenditures	<u>14,510,317</u>	<u>15,410,673</u>	<u>14,232,585</u>	<u>1,178,088</u>
<b>Revenues over (under) expenditures</b>	(61,356)	(492,038)	425,634	917,672
<b>Other financing sources (uses)</b>				
Operating transfers out	<u>(210,000)</u>	<u>(215,000)</u>	<u>(207,731)</u>	<u>7,269</u>
<b>Revenues and other sources over (under) expenditures and other uses</b>	(271,356)	(707,038)	217,903	924,941
<b>Fund balance - beginning</b>	<u>577,636</u>	<u>1,426,102</u>	<u>1,426,102</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 306,280</u>	<u>\$ 719,064</u>	<u>\$ 1,644,005</u>	<u>\$ 924,941</u>

Shepherd Public School District  
 Budgetary Comparison Schedule for the Food Service Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 275,000	\$ 271,064	\$ 273,071	\$ 2,007
State sources	52,500	47,487	47,487	-
Federal sources	290,000	305,913	305,781	(132)
Total revenues	617,500	624,464	626,338	1,875
<b>Expenditures</b>				
Central	500	1,000	922	78
Food service	620,000	660,428	666,772	(6,344)
Total expenditures	620,500	661,428	667,694	(6,266)
<b>Revenues over (under) expenditures</b>	(3,000)	(36,964)	(41,356)	(4,391)
<b>Fund balance - beginning</b>	55,610	132,825	132,825	-
<b>Fund balance - ending</b>	<u>\$ 52,610</u>	<u>\$ 95,861</u>	<u>\$ 91,469</u>	<u>\$ (4,392)</u>

Shepherd Public School District  
 Budgetary Comparison Schedule for the Athletic Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 54,000	\$ 55,144	\$ 56,818	\$ 1,674
Total revenues	54,000	55,144	56,818	1,674
Expenditures				
Athletics	265,000	272,436	264,456	7,980
<b>Revenues over (under) expenditures</b>	<b>(211,000)</b>	<b>(217,292)</b>	<b>(207,637)</b>	<b>9,655</b>
<b>Other financing sources (uses)</b>				
Operating transfers in	210,000	215,000	207,731	(7,269)
<b>Revenues and other sources over (under) expenditures and other uses</b>	<b>(1,000)</b>	<b>(2,292)</b>	<b>94</b>	<b>2,386</b>
<b>Fund balance - beginning</b>	<b>12,120</b>	<b>4,163</b>	<b>4,163</b>	<b>-</b>
<b>Fund balance - ending</b>	<b>\$ 11,120</b>	<b>\$ 1,871</b>	<b>\$ 4,256</b>	<b>\$ 2,386</b>

**OTHER SUPPLEMENTAL INFORMATION**



Shepherd Public School District  
General Fund  
Balance Sheet  
June 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Cash and investments	\$ 2,661,500	\$ 2,779,693
Accounts receivable, net	35,836	49,994
Due from other funds	35,200	67,661
Due from other governmental units	2,313,940	2,178,809
Inventory	40,560	36,576
Prepays	41,385	111,567
	<u>5,128,421</u>	<u>5,224,300</u>
Total assets	<u>\$ 5,128,421</u>	<u>\$ 5,224,300</u>
<b>Liabilities</b>		
Accounts payable	\$ 251,760	\$ 184,124
Accrued expenses	191,531	84,627
Accrued wages	785,925	742,666
Accrued interest	58,624	70,165
Deferred revenue	346,576	516,617
State aid loan payable	1,850,000	2,200,000
	<u>3,484,416</u>	<u>3,798,198</u>
Total liabilities	<u>3,484,416</u>	<u>3,798,198</u>
<b>Fund balance</b>		
Reserved for:		
Prepays	41,385	111,567
Inventory	40,560	36,576
Unreserved, designated for:		
Various maintenance and capital outlay items	665,250	526,075
Unreserved, undesignated	896,810	751,884
	<u>1,644,005</u>	<u>1,426,102</u>
Total fund balance	<u>1,644,005</u>	<u>1,426,102</u>
Total liabilities and fund balance	<u>\$ 5,128,421</u>	<u>\$ 5,224,300</u>



Shepherd Public School District  
General Fund  
Statement of Revenues  
For The Years Ended June 30, 2008 and 2007

	2008	2007
<b>Local sources</b>		
Property taxes	\$ 845,444	\$ 803,896
Interest	63,527	88,724
Contributions	16,719	101,620
Tuition	17,821	14,852
Insurance claims	19,029	-
Other local revenues	35,838	67,698
Total local sources	998,379	1,076,790
<b>Non-educational entity or political subdivision</b>		
Tribal grants	332,559	322,535
<b>State sources</b>		
General state aid	11,343,973	11,117,323
Categorical:		
Special education	467,989	590,334
At risk	255,890	262,279
Early childhood development	51,000	49,500
Durant settlement	26,875	26,875
Other	49,104	28,810
Total state sources	12,194,831	12,075,122
<b>Federal sources</b>		
Title I, Part A	296,870	302,141
Title II, Part A	75,374	102,668
Title II, Part D	2,521	8,039
Title V	355	358
Service provider self review	-	1,467
Medicaid	25,935	27,226
Safe & drug free schools	3,375	3,094
Total federal sources	404,430	444,993
<b>Other sources</b>		
Special education tax	620,671	534,505
Special education tuition	13,288	18,312
Sale of school property	3,905	8,106
Medicaid - targeted case management	69,683	56,709
Vocational education transportation	18,126	26,613
Other	2,349	1,643
Total other sources	728,021	645,887
Total general fund revenues	\$ 14,658,219	\$ 14,565,327

Shepherd Public School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Instruction</b>		
Basic programs		
Elementary		
Salaries	\$ 1,882,316	\$ 1,905,668
Employee benefits	873,895	929,167
Purchased services	114	112
Supplies, materials and other	173,084	137,183
Capital outlay	628	4,960
Total elementary	2,930,037	2,977,090
Middle school		
Salaries	964,196	936,069
Employee benefits	443,188	456,743
Purchased services	68	57
Supplies, materials and other	92,935	49,352
Capital outlay	1,558	-
Total middle school	1,501,945	1,442,222
High school		
Salaries	1,389,897	1,371,700
Employee benefits	670,797	714,669
Purchased services	5,130	9,563
Supplies, materials and other	166,205	166,429
Capital outlay	3,892	3,007
Total high school	2,235,922	2,265,368
Pre-school		
Purchased services	51,000	49,500
Summer school		
Salaries	37,337	29,208
Employee benefits	9,424	7,139
Supplies, materials and other	11,279	4,357
Total summer school	58,040	40,704
Total basic programs	6,776,944	6,774,884
Added needs		
Special education		
Salaries	734,138	659,439
Employee benefits	346,441	337,548
Purchased services	3,034	106
Supplies, materials and other	4,498	5,556
Outgoing transfers and other transactions	-	14,135
Total special education	1,088,111	1,016,785

Shepherd Public School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Instruction (continued)</b>		
Added needs (continued)		
Compensatory education		
Salaries	\$ 230,208	\$ 231,719
Employee benefits	95,340	96,461
Purchased services	-	142
Supplies, materials and other	11,036	6,406
	<u>336,584</u>	<u>334,728</u>
Total compensatory education		
	<u>336,584</u>	<u>334,728</u>
Vocational education		
Salaries	98,522	88,994
Employee benefits	49,492	48,113
Supplies, materials and other	3,854	3,025
Capital outlay	48	83,563
Outgoing transfers and other transactions	246,867	204,749
	<u>398,783</u>	<u>428,444</u>
Total vocational education		
	<u>398,783</u>	<u>428,444</u>
Total added needs	<u>1,823,478</u>	<u>1,779,957</u>
Total instruction	<u>8,600,422</u>	<u>8,554,840</u>
<b>Support services</b>		
<b>Pupil</b>		
Guidance services		
Salaries	157,098	148,288
Employee benefits	79,843	82,609
Purchased services	197	238
Supplies, materials and other	90	456
	<u>237,228</u>	<u>231,590</u>
Total guidance services		
	<u>237,228</u>	<u>231,590</u>
Health services		
Salaries	31,463	30,705
Employee benefits	21,219	22,495
Purchased services	144	412
Supplies, materials and other	1,687	957
	<u>54,513</u>	<u>54,569</u>
Total health services		
	<u>54,513</u>	<u>54,569</u>
Speech		
Salaries	116,385	111,323
Employee benefits	55,731	58,273
Purchased services	658	568
Supplies, materials and other	796	833
	<u>173,571</u>	<u>170,996</u>
Total speech		
	<u>173,571</u>	<u>170,996</u>

Shepherd Public School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services</b>		
<b>Pupil</b>		
Social Worker		
Salaries	\$ 42,433	\$ 39,443
Employee benefits	23,776	24,615
Purchased services	195	320
Supplies, materials and other	447	487
	<u>66,850</u>	<u>64,866</u>
Total social worker		
	<u>66,850</u>	<u>64,866</u>
Other pupil services		
Aides		
Salaries	140,161	-
Employee benefits	34,649	-
	<u>174,809</u>	<u>-</u>
Total aides		
	<u>174,809</u>	<u>-</u>
Total pupil	<u>706,971</u>	<u>522,021</u>
Instructional staff		
Improvement of instruction		
Purchased services	48,085	32,888
Supplies, materials and other	576	3,329
	<u>48,662</u>	<u>36,216</u>
Total improvement of instruction		
	<u>48,662</u>	<u>36,216</u>
Library		
Salaries	96,947	90,802
Employee benefits	37,645	38,151
Purchased services	506	1,464
Supplies, materials and other	21,489	37,322
Capital outlay	3,813	732
	<u>160,399</u>	<u>168,470</u>
Total library		
	<u>160,399</u>	<u>168,470</u>
Special education director		
Salaries	31,897	30,909
Employee benefits	20,283	19,670
Purchased services	1,036	469
Supplies, materials and other	1,127	1,931
Capital outlay	1,079	-
	<u>55,422</u>	<u>52,980</u>
Total special education director		
	<u>55,422</u>	<u>52,980</u>
Total instructional staff	<u>264,483</u>	<u>257,666</u>
General administration		
Board of education		
Salaries	4,780	4,940
Purchased services	42,390	34,204
Supplies, materials and other	12,336	26,232
	<u>59,506</u>	<u>65,375</u>
Total board of education		
	<u>59,506</u>	<u>65,375</u>

See accompanying notes to financial statements.

Shepherd Public School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Executive administration		
Salaries	\$ 138,520	\$ 130,227
Employee benefits	55,078	44,576
Purchased services	727	1,732
Supplies, materials and other	2,223	7,599
	<u>196,548</u>	<u>184,134</u>
Total executive administration	<u>196,548</u>	<u>184,134</u>
Total general administration	<u>256,054</u>	<u>249,510</u>
School administration		
Offices of the principals		
Salaries	763,926	729,690
Employee benefits	319,866	307,634
Purchased services	25,357	11,837
Supplies, materials and other	10,456	22,146
	<u>1,119,605</u>	<u>1,071,307</u>
Total offices of the principals	<u>1,119,605</u>	<u>1,071,307</u>
Business		
Fiscal services		
Salaries	143,706	132,030
Employee benefits	79,055	74,891
Purchased services	3,139	5,371
Supplies, materials and other	10,827	15,553
Capital outlay	8,802	-
	<u>245,529</u>	<u>227,845</u>
Total fiscal services	<u>245,529</u>	<u>227,845</u>
Internal services		
Purchased services	14,183	12,329
Supplies, materials and other	17,041	15,328
Capital outlay	59,573	-
	<u>90,797</u>	<u>27,657</u>
Total internal services	<u>90,797</u>	<u>27,657</u>
Other business services		
Purchased services	14,993	14,899
Supplies, materials and other	97,982	90,515
	<u>112,975</u>	<u>105,414</u>
Total other business services	<u>112,975</u>	<u>105,414</u>
Total business	<u>449,301</u>	<u>360,916</u>
Operation and maintenance		
Salaries	497,950	484,064
Employee benefits	266,009	265,130
Purchased services	3,600	3,823
Supplies, materials and other	594,045	507,310
Capital outlay	49,522	6,840
	<u>1,411,126</u>	<u>1,267,168</u>
Total operation and maintenance	<u>1,411,126</u>	<u>1,267,168</u>

See accompanying notes to financial statements.

Shepherd Public School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Pupil transportation		
Salaries	\$ 476,257	\$ 463,866
Employee benefits	166,690	167,776
Purchased services	7,754	7,534
Supplies, materials and other	259,673	195,843
Capital outlay	154,248	184,743
	<u>1,064,622</u>	<u>1,019,762</u>
 Total pupil transportation	 <u>1,064,622</u>	 <u>1,019,762</u>
 Central		
Data processing		
Purchased services	18,683	38,810
	<u>18,683</u>	<u>38,810</u>
 Total data processing	 <u>18,683</u>	 <u>38,810</u>
 Central service data processing		
Salaries	84,983	83,046
Employee benefits	42,928	41,700
Purchased services	34,450	45,791
Supplies, materials and other	93,512	118,049
Capital outlay	47,953	-
	<u>303,826</u>	<u>288,586</u>
 Total central service data processing	 <u>303,826</u>	 <u>288,586</u>
 Total central	 <u>322,509</u>	 <u>327,396</u>
 Total support services	 <u>5,594,672</u>	 <u>5,075,745</u>
 <b>Community services</b>		
Community recreation		
Supplies, materials and other	54	326
 Community activities		
Supplies, materials and other	-	600
	<u>-</u>	<u>600</u>
 Total community services	 <u>54</u>	 <u>926</u>
 <b>Outgoing transfers &amp; other transactions</b>		
Facilities acquisition and renovations	33,776	173,875
Lease payments	3,661	14,644
Transfers to other funds	207,731	199,756
	<u>245,168</u>	<u>388,275</u>
 Total outgoing transfers & other transactions	 <u>245,168</u>	 <u>388,275</u>
 Total general fund expenditures	 <u>\$ 14,440,316</u>	 <u>\$ 14,019,787</u>

Shepherd Public School District  
Food Service Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Years Ended June 30, 2008 and 2007

	Totals	
	2008	2007
<b>Revenues</b>		
Local sources		
Student lunches	\$ 166,946	\$ 169,893
Adult lunches	6,849	7,550
Ala-carte	97,656	92,742
Interest	556	691
Miscellaneous	1,064	9,325
Total local sources	273,071	280,201
State sources	47,487	50,393
Federal sources		
National school lunch program	265,139	256,770
USDA donated commodities	40,642	38,484
Total federal sources	305,781	295,254
Total revenues	626,338	625,848
<b>Expenditures</b>		
Central		
Purchased services	922	444
Food services		
Salaries	221,356	207,518
Employee benefits	73,514	70,569
Purchased services	15,434	12,960
Supplies, materials and other	343,198	308,988
Capital outlay	13,269	12,227
Total food services	666,772	612,262
Total expenditures	667,694	612,706
<b>Revenues over (under) expenditures</b>	(41,356)	13,143
<b>Fund balance - beginning</b>	132,825	119,682
<b>Fund balance - ending</b>	\$ 91,469	\$ 132,825

Shepherd Public School District  
Athletics Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Years Ended June 30, 2008 and 2007

	Totals	
	2008	2007
<b>Revenues</b>		
Local sources		
Gate receipts	\$ 56,219	\$ 53,617
Interest	249	270
Miscellaneous	350	-
Total revenues	56,818	53,887
<b>Expenditures</b>		
Salaries	157,897	154,026
Employee benefits	46,634	48,955
Purchased services	28,669	26,928
Supplies, materials and other	31,256	33,196
Total expenditures	264,456	263,104
<b>Revenues over (under) expenditures</b>	(207,637)	(209,217)
<b>Other financing sources (uses)</b>		
Operating transfers in	207,731	199,756
<b>Revenues and other sources over (under) expenditures and other uses</b>	94	(9,461)
<b>Fund balance - beginning</b>	4,163	13,624
<b>Fund balance - ending</b>	\$ 4,256	\$ 4,163



Shepherd Public School District  
Capital Projects Fund  
Balance Sheet  
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and investments	\$ 27,780,487	\$ -
Accrued interest	<u>325,637</u>	<u>-</u>
Total assets	<u>\$ 28,106,124</u>	<u>\$ -</u>
<b>Fund balance</b>		
Fund balance		
Reserved for future capital outlay	<u>\$ 28,106,124</u>	<u>\$ -</u>
Total fund balance	<u>\$ 28,106,124</u>	<u>\$ -</u>

Shepherd Public School District  
Capital Projects Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
Local sources		
Interest income	\$ 445,001	\$ -
Total revenues	445,001	-
<b>Expenditures</b>		
Bond cost and fees	380,702	-
Capital outlay		
Construction in progress	397,421	-
Total expenditures	778,123	-
<b>Revenues over (under) expenditures</b>	(333,122)	-
<b>Other financing sources (uses)</b>		
Proceeds from bonds	27,957,094	-
Premium on bonds	482,152	-
<b>Revenues and other sources over (under) expenditures and other uses</b>	28,106,124	-
<b>Fund balance - beginning</b>	-	-
<b>Fund balance - ending</b>	<u>\$ 28,106,124</u>	<u>\$ -</u>

Shepherd Public School District  
Debt Service Fund  
Combining Statement of Revenues, Expenditures, and  
For The Year Ended June 30, 2008

4. Of this Year Ended June 30, 2000					
Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
<b>Durant Issue - \$268,746</b>					
Due May 1,					
2009	3.37	\$ 14,957	\$ -	\$ 3,916	\$ 18,873
2010	3.37	15,668	-	3,204	18,872
2011	3.37	16,414	-	2,458	18,872
2012	3.37	17,195	-	1,676	18,871
2013	3.37	94,451	-	32,348	126,798
Total		\$ 158,685	\$ -	\$ 43,602	\$ 202,287

The State School Aid Act, as amended by Public Act 142 of 1997 provided appropriations as part of a settlement to school districts involved in the Durant litigation as well as schools not involved in the litigation. The Michigan Municipal Bond Authority (MMBA) issued bonds for those districts that elected to receive a lump sum amount from the MMBA rather than receive part of the settlement in fifteen annual payments.

Shepherd Public School District  
Schedule of Long-Term Debt  
For The Year Ended June 30, 2008

Maturity Date	Interest Rate (%)	Principal Due	Interest Due		Total
			November	May	
2008 Bond Issue - \$31,895,000					
2009	3.50%	\$ 370,000	\$ 1,035,571	\$ 698,138	\$ 2,103,708
2010	3.50%	630,000	691,663	691,663	2,013,325
2011	3.50%	775,000	680,638	680,638	2,136,275
2012	3.50%	890,000	667,075	667,075	2,224,150
2013	3.50%	975,000	651,500	651,500	2,278,000
2014	5.00%	1,025,000	634,438	634,438	2,293,875
2015	5.00%	1,075,000	608,813	608,813	2,292,625
2016	4.00%	1,125,000	581,938	581,938	2,288,875
2017	5.00%	1,025,000	559,438	559,438	2,143,875
2018	5.00%	1,025,000	533,813	533,813	2,092,625
2019	4.00%	1,025,000	508,188	508,188	2,041,375
2020	4.00%	1,050,000	487,688	487,688	2,025,375
2021	4.00%	1,075,000	466,688	466,688	2,008,375
2022	4.00%	1,100,000	445,188	445,188	1,990,375
2023	5.00%	1,150,000	423,188	423,188	1,996,375
2024	5.00%	1,175,000	394,438	394,438	1,963,875
2025	5.00%	250,000	365,063	-	-
2025	4.25%	950,000	-	365,063	1,930,125
2026	5.00%	250,000	338,625	-	-
2026	4.25%	950,000	-	338,625	1,877,250
2027	4.25%	1,225,000	312,188	312,188	1,849,375
2028	4.25%	1,250,000	286,156	286,156	1,822,313
2029	5.00%	500,000	259,594	-	-
2029	4.38%	775,000	-	259,594	1,794,188
2030	5.00%	500,000	230,141	-	-
2030	4.38%	775,000	-	230,141	1,735,281
2031	4.38%	600,000	200,688	-	-
2031	5.00%	675,000	-	200,688	1,676,375
2032	4.38%	595,000	170,688	-	-
2032	5.00%	685,000	-	170,688	1,621,375
2033	4.38%	1,275,000	140,547	140,547	1,556,094
2034	4.38%	1,275,000	112,656	112,656	1,500,313
2035	4.38%	1,275,000	84,766	84,766	1,444,531
2036	4.38%	1,300,000	56,875	56,875	1,413,750
2037	4.38%	1,300,000	28,438	28,438	1,356,875
Total		\$ 31,895,000	\$ 11,956,680	\$ 11,619,247	\$ 55,470,927

For some years, there are two principal payments shown. This is due to a change in interest rates during the fiscal year.

**SHEPHERD PUBLIC SCHOOL DISTRICT**  
**Shepherd, Michigan**

**Federal Awards**  
**(Supplementary Information**  
**To Financial Statements)**  
*June 30, 2008*



Shepherd Public School District  
Federal Awards  
(Supplementary Information to Financial Statements)  
June 30, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Shepherd Public School District  
Shepherd, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shepherd Public School District (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the District in a separate letter dated October 10, 2008.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 10, 2008





**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Shepherd Public School District  
Shepherd, Michigan

**Compliance**

We have audited the compliance of Shepherd Public School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shepherd Public School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 10, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Shepherd Public School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 10, 2008

Shepherd Public School District  
Schedule of Expenditures of Federal Awards  
For The Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 7/1/2007	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 6/30/2008	GPFS Federal Revenue Recognized
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>								
<b>Passed Through The Michigan Department Of Education</b>								
Child Nutrition Cluster:								
National School Breakfast Program	(a) 10.553	NA	\$ 51,108	\$ -	\$ 51,108	\$ 51,108	\$ -	\$ 51,108
National School Lunch Program	(a) 10.555	NA	214,030	-	214,031	214,031	-	214,031
Sub total				-	265,139	265,139	-	265,139
Entitlement Commodities	10.550	NA	NA	-	40,642	40,642	-	40,642
<b>Total U.S. Department of Agriculture</b>				-	<b>305,781</b>	<b>305,781</b>	-	<b>305,781</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>								
<b>Passed Through Gratiot-Isabella Regional Education Service District</b>								
Drug-Free Schools and Communities	84.186	NA	3,374	-	3,374	3,374	-	3,374
<b>Passed Through The Michigan Department Of Education:</b>								
Title I	84.010	081530-0708	297,920	-	296,870	296,870	-	296,870
Title I	84.010	071530-0607	311,454	(77,198)	77,198	-	-	-
Sub total				(77,198)	374,068	296,870	-	296,870
Title V, Part A -Regular	84.298	080250-0708	355	-	355	355	-	355
Title II, Part D - Regular	84.318	084290-0708	2,521	-	2,521	2,521	-	2,521
Handicapped Preschool & School Program Service Provider Self-Review	84.027	070440-0607	4,500	78	(78)	-	-	-
Title II, Part A - Regular	84.367	050520-0405	102,668	(12,855)	12,855	-	-	-
Title II, Part A - Regular	84.367	080520-0708	102,240	-	75,374	75,374	-	75,374
Sub total				(12,855)	88,229	75,374	-	75,374
<b>Total U.S. Department of Education</b>				<b>(89,975)</b>	<b>468,469</b>	<b>378,494</b>	-	<b>378,494</b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>								
<b>Passed Through The Gratiot-Isabella ISD:</b>								
Medical Assistance Program (School Based Serv.)	93.778	NA	25,935	-	25,935	25,935	-	25,935
<b>Total U.S. Department of Health And Human Services</b>				-	<b>25,935</b>	<b>25,935</b>	-	<b>25,935</b>
<b>TOTALS</b>				<b>\$ (89,975)</b>	<b>\$ 800,185</b>	<b>\$ 710,210</b>	<b>\$ -</b>	<b>\$ 710,210</b>

(a) = These are part of the child nutrition cluster.

Federal revenue recognized is reported on page 5 of the financial audit report.

Shepherd Public School District  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2008

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**Note 1.**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Shepherd Public School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and reconciles with amounts presented in the financial statements.

**Note 2.**

The following programs represent 37.3% of federal program expenditures and were audited as major programs:

- CFDA #10.553 – National School Breakfast Program
- CFDA #10.555 – National School Lunch Program

**Note 3.**

The threshold for distinguishing Type A and B programs was \$300,000.

**Note 4.**

Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.

**Note 5.**

Management has utilized the Grant Section Auditors' Report (R7120) and the Grant Auditor Report (Cash Management System) in preparing the schedule of expenditures of federal awards.

**Note 6.**

The amounts reported on the Recipient Entitlement Balance Report agree with this schedule for USDA donated food commodities.

**Note 7.**

Expenditures include spoilage or pilferage.

**Note 8.**

The current year expenditures on the schedule of expenditures of federal awards agree to the federal revenue reported on page 5 in the financial statements.

Shepherd Public School District  
Schedule of Findings and Questioned Cost  
Year Ended June 30, 2008

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**SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

Type of auditor's opinion issued:	Unqualified.
Internal control over financial reporting:	
▪ Material weakness(es) identified?	No.
▪ Significant deficiency (ies) identified that are not considered to be material weakness(es)?	None reported.
Noncompliance material to financial statements noted?	No.

FEDERAL AWARDS

Internal control over major program:	
▪ Material weakness(es) identified?	No.
▪ Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported.
Type of auditor's report issued on compliance for major programs:	Unqualified.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No.
Dollar threshold used to distinguish between type A and type B programs:	\$300,000.
Auditee qualified as low-risk auditee?	Yes.
Identification of major programs:	
CFDA #10.553 – National School Breakfast Program	
CFDA #10.555 – National School Lunch Program	

**FINANCIAL STATEMENT FINDINGS**

None.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

Shepherd Public School District  
Schedule of Prior Year Findings  
Year Ended June 30, 2008

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There were no findings for the year ended June 30, 2007.



## MANAGEMENT LETTER

Shepherd Public School District  
Shepherd, Michigan

In planning and performing our audit of the financial statements for Shepherd Public School District (the District) for the fiscal year ended June 30, 2008, we considered the District's internal control in determining our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for the District to strengthen internal controls and operating efficiency. The following pages that accompany this letter summarize our comments and recommendations regarding those matters. This letter does not affect our audit report dated October 10, 2008 on the financial statements of Shepherd Public School District.

We will review the status of these comments during our next audit engagement. We have discussed these comments and recommendations with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Shepherd Public School District, management, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage &amp; Company, P.C.'.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 10, 2008

Shepherd Public School District  
Management Letter

**Status of Prior Year Comments and Recommendations**

We were please to see that management has implemented the recommendations we included in our previously issued Management Letter.

**Budget Enforcement and Monitoring**

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on variances between final budget and actual for total revenues, total expenditures, total net other financing sources and uses, and ending fund balance that exceed 1% of the respective budgeted amounts. The Department of Education will may be issuing letters to school board presidents, superintendents and chief business officials when they identify these types of violations.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a District's actual revenues were less than budgeted revenues and, at the same time, there was a reduction in the District's fund balance beyond what was approved by the school board.

We recommend you continue to review your budget amendments during the year in light of the above changes to the Department of Education's focus regarding enforcement and monitoring of budget violations.

**Uninsured Bank Deposits**

During recent months the financial market has seen significant fluctuations leading many to question the security and availability of bank deposits held in financial institutions. Although most banks insure deposits through the Federal Deposit Insurance Corporation (FDIC), there are limits to that coverage.

As of October 3, 2008, it is our understanding that the current limits for FDIC insured balances are \$250,000 per entity per financial institution. Governmental units may also request certain funds be collateralized by the bank. There are also other options regarding the investment of surplus funds including investment pools, treasury investments, and commercial paper.

We are not investment advisors. However, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review your investment policies to ensure it continues to satisfy the District's goals.